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S E C R E T SECTION 01 OF 02 MOSCOW 000054

SIPDIS
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DEPT FOR EUR/RUS, EEB/ESC/IEC GALLOGLY AND GREENSTEIN,
S/EEE MORNINGSTAR
DOE FOR HEGBURG, EKIMOFF
DOC FOR JBROUGHER
NSC FOR MMCFAUL

E.O. 12958: DECL: 01/12/2020
TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [PINR](#) [RS](#) [BO](#)
SUBJECT: TRANSNEFT: NO DISCOUNTED OIL TO BELARUS WITHOUT
NEW AGREEMENT

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BUT IT'S ALSO POLITICAL

16. (S/NF) After having repeatedly stressed that money and the law formed the basis of Russia's position, Pilipets then suggested, as have many pundits, that politics is also central to the issue. He offered, from his "personal viewpoint based on long experience outside of Transneft," that oil supplies to and through Belarus "would be more stable if Mr. Lukashenko stopped playing games" by pitting Russia against the West. (Comment: Pilipets has indicated to us that he used to work in intelligence, including during his time in the U.S. End comment.)

OIL TRADER SAYS SUPPLIES TO BELARUS CUT

17. (C) Pilipets said he did know whether supplies to Belarus had been reduced or not. Press reports have indicated that flows to Belarus continue despite the lack of a new agreement. An oil trader at a major international oil company told us January 12, however, that he had heard from his contacts that oil to (not through) Belarus had been "significantly reduced" to amounts just needed for domestic consumption. According to this contact, "all negotiations have stopped." He added that there have not been any disruptions of Russian crude to his company's Eastern European refineries and that he understood that Russian exports through Belarus were continuing normally.

18. (C) Pilipets said that oil flows through Belarus should continue uninterrupted "unless Belarus takes some mad action." Presumably, Pilipets was referring to Belarus taking transit oil for its own use, which was the cause of

oil supply disruptions in Eastern Europe in 2007.

CUSTOMS UNION DOESN'T COVER OIL

¶9. (SBU) According to press reports, Belarus believes it should receive duty-free oil due to its Customs Union with Russia and Kazakhstan (reftel). However, as Russia contends, the Customs Union does not yet cover oil or oil products. An agreement on oil and oil products is part of the Action Plan for a Common Economic Space agreed to by the Customs Union Heads of State on December 19, 2009. The agreement is expected to be completed and signed by January 1, 2011, and implemented by July 1, 2011.

COMMENT

¶10. (C) Russia's relationship with Belarus is complex and opaque. It is difficult to know what may be driving some decision makers. The oil dispute, like Russia's gas dispute with Ukraine, exposes the political power Russia wields over its weaker neighbors due to their energy and economic dependence. This situation is exacerbated by Russia's subsidization of energy deliveries, while the neighbors strive for political independence. Non-transparent energy subsidies not only create market distortions and inefficiencies, but they frequently become a source of political and economic discord. As long as Russian crude transits Belarus without disruption and Belarus' domestic needs are met, there will be little pressure on Russia to be more flexible. That said, the two sides will likely find some temporary patch to allow full flows to resume, but it is unlikely they will eliminate the underlying causes of the dispute. End comment.
Rubin